4.1 INTRODUCTION

The financial system of a country is of immense importance as it portrays the stability as well as sustainability of the country. The financial system consists of a set of complex and closely interconnected financial institutions, markets, instruments, services, practices, and transactions. (Gurusamy, 2008). The role of the financial system is to gather or pool money from people and businesses that have more than they need currently and transmit those funds to those who can use them for either consumption or investment. The larger the flow of funds and the more efficient their allocation is, the better the economic output and welfare of the economy and society. Thus financial system plays an important role in the economic development and it is divided into financial markets and institutions. These financial markets and the financial institutions play an important role in the financial system by rendering a number of financial services to various section of the economy.

4.2 FINANCIAL SERVICES – WHAT DOES IT MEAN?

A financial service refers to those facilities offered by institutions or organizations in the finance industry which include banks, non banking financial companies, stock brokerage firms, insurance firms, mutual funds, and foreign exchange among others.

As per section 65(10) of the Finance Act, 1994, “banking and financial services” means the following services provided by a banking company or a financial institution including a non banking financial company, namely financial leasing services including equipment leasing and hire-purchase by a body corporate; credit card services; merchant banking services; securities and foreign exchange (forex) broking; asset management including portfolio management, all forms of fund management, custodial depository and trust services, advisory and other auxiliary financial services including investment and portfolio research and advice, advice on mergers and
acquisition and advice on corporate restructuring and strategy; and provision and
transfer of information and data processing

The finance industry encompasses a broad range of organizations that deal with
the management of money. Among these organizations are credit unions, banks, credit
card companies, insurance companies, consumer finance companies, stock brokerages,
investment funds and some government sponsored enterprises.

Financial services are wide and varied hence organizations are involved in
offering them. Some well known financial services include debt resolution, private
equity intermediation, venture capital conglomerates as well as both private and public
equity. The above directly implies that financial services in general relate to all those
issues which affect the circulation of money and how they interrelate

4.3 FUNCTIONS AND SIGNIFICANCE OF FINANCIAL SERVICES

Financial services of a country play a substantial role in promoting the long
term growth of the economy. A nation having a healthy and appropriate financial
system establishes its significance by imparting the ensuing functions

4.3.1 Mobilizing Savings

Financial services with attractive yield, liquidity and safety characteristics
encourage saving of common public in financial form which is perhaps the most
obvious and important function of the financial sector. The provision of savings
facilities enables households to store their money in a secure place and the attractive
yield on investment can create positive expected returns for the savers, which may in
turn increase savings. In addition, mobilizing the savings through financial service
industries allows the money to be put to productive use such as being lent to individuals
or enterprises to finance investment, thus encouraging capital accumulation and
promoting private and public sector development and overall growth of economy.

Improved savings also make it possible the availability of Credit to finance
investment in education or health, and can thus promote the accumulation of human
capital. Thus savings mobilization can have a significant impact on growth by increasing investment, productivity and human capital.

4.3.2 Risk Management

Common folks like their savings to be ‘liquid’. That is they prefer having the option to draw on their savings or move them into another investment opportunity, should the need arise. But projects or enterprises require a medium to long-term commitment of capital. As financial intermediaries combine the savings of many a households, and as all these savers may not want to withdraw their money at the same time, financial service industries can simultaneously provide medium to long-term capital for investment, and liquidity for savers. This way the financial institutions ensure reduced liquidity risk of household savings and make certain that capital is allocated to the best projects, even if they require a long-term financial commitment.

4.3.3 Risk Transformation

Households those want to park their excess funds generally dislike risk. As investing in an individual project or a particular sector is riskier than investing in a wide range of projects or sectors, financial intermediaries facilitate risk diversification by allowing investments to be made in riskier projects with higher expected returns in aggregate. The financial service industries further reduces the risk of investing public by enabling it to be carried by those more willing to bear it. Thus by transforming the risk factor financial services provide the investors with overall investment returns and improve capital allocation, followed with subsequent positive impact on national economy.

4.3.4 Resource Allocation

Individual savers are unlikely to have the time or capacity to collect process and compare information to evaluate the alternative investment options before them before choosing where to invest. Financial intermediaries have the ability to evaluate alternative investments and monitor the activities of borrowers, thereby increasing the
efficiency of resource use. They collect information about projects on behalf of many investors, and share the costs of doing so between them. This will improve resource allocation notably to finance productive investments and facilitates the capital to flow to its highest value use.

4.3.5 Monitoring Borrowers

It is the responsibility of the financial service industries to see to it that the funds allocated are spend by the borrowers as envisaged. Therefore financial intermediaries monitor the performance of enterprises on behalf of the entire investors and exercise corporate control, which ensures that investors receive returns that properly reflect the enterprise’s performance. Thus financial arrangements that improve corporate control tend to promote faster capital accumulation and growth.

4.3.6 Facilitating Transactions

By providing financial intermediation the financial services reduce transaction costs, and facilitate the trading of goods and services between businesses and households. In doing this, the financial sector allows greater specialization which in turn facilitates productivity gains and allows more technological innovation and growth. The above functions of financial services industry distinguish it as the most catalyzing agent for growth of the economy, making it one of the key inputs of development

4.4 INDIAN SCENARIO

Financial services in India has witnessed an enormous growth from the days when people had to rely on limited services such as savings account or fixed deposit offered by the banks. Nowadays people have the choice to choose the service that most suitably fits their proposition as the services offered have increased manifold ultimately resulting in greater inflow of investments into the capital market
4.4.1 The Growth Story

India is claimed to be the second fastest growing economy in the world. According to Central Statistical Organization (CSO)\(^1\). The size of the economy at current prices rose to Rs 61,33,230 crore in the 2010 fiscal, up 16.1 per cent over Rs 52,82,086 crore in financial year ’09 and based on 2004-05 prices, the Indian economy expanded by 8 per cent during the fiscal ended March 2010. This is higher than 6.8 per cent growth in fiscal 2008-09. And the latest statistics again by CSO points out that the GDP of India at factor cost at current prices in Q2 of 2011-12, is estimated at Rs. 19,55,880 crore, as against Rs. 16,85,793 crore in Q2, 2010-11, showing an increase of 16.0 per cent.

The resultant impact of rapid GDP growth has been an increase in the per capita income and also an increase in the income levels of both rural and urban households. According to a data released by the government per capita income of Indians grew by 17.9 per cent to Rs. 54835 in 2010-11 from Rs.46492 in the year ago period.

The attractiveness of the Indian economy has resulted in an increase in foreign investment in the country. Besides increasing confidence levels among retail investors, the prevalent liquidity owing to foreign inflows into the economy has led to sound fundamentals in equity market.

Increasing prosperity coupled with rising consumerism of Indian consumers has fueled a significant surge in retail credit demand. Retail lending has led to an astonishing growth in the financial services sector with players focused on the retail segment registering impressive top line growth. Rapid growth by the corporate sector has generated a need for capital which has resulted in growth of institutional finance too. Finally India’s favorable demographic mix, its abundance of educated and talented manpower, and among the youngest populations in the world, has further projected the economy to a desirable position.

\(^1\) http://www/central-statistical-organisation, on Dec2, 2011.
The aforementioned developments have put the Indian financial services sector in a growth trajectory. According to the Central Statistical Organisation (CSO) data, released at the end of fiscal 2010, financial services, banking, insurance and real estate sectors rose by 9.7 per cent in 2009-10. The growing attractiveness of the financial services sector has triggered the entry of global majors. Aggressive plans of incumbents coupled with the entry of new players are expected to further drive the growth of the sector.

4.4.2 The Road Ahead

Indian Financial Services industry is a promising one and holds potential for massive growth in future. Be it in banking, insurance or foreign investments, the country is making its mark in every sub-segment, nationally as well as internationally. For instance, a report by Boston Consulting Group (BCG), an industrial body and Indian Banks Associations (IBA), anticipates that Indian banking industry would stand as the third largest in the world by 2025 wherein its assets size is poised to mark US$ 28,500 billion by 2025 from the asset size of US$ 1,350 billion in 2010. Another report by an industrial body and BCG suggests that India’s insurance industry would reach US$ 350-400 billion in terms of premium income by 2020, making it among the top three life insurance markets. Also, India is expected to be one of the top 15 non-life insurance markets by 2020. Hence, it is quite reasonable for the industry analysts to believe that strong domestic consumption-driven growth in India would lure significant positive cash inflow in near future from domestic and foreign players.

4.5 MAJOR SEGMENTS IN FINANCIAL SERVICES

The International Finance Corporation (IFC) lists 11 areas of financial services namely fund raising, asset management, personal wealth management, transfer pricing, tax management, corporate treasury management, risk management and insurance, exchange trading of financial instruments, financial architecture for large projects, Mergers and Acquisitions (M&A’s), and financing for public-private partnerships.
The aforementioned financial services are carried out in India by a diverse range of institutions which can be put in the following sub-categories:

Banking and Financing – Consumer Finance, Small and Medium Enterprise (SME) finance, Agriculture and rural finance, Institutional Finance and Project Finance.

Insurance – Life and Non-life insurance

Capital Markets – Asset Management, Pension, Wealth management, Investment

Banking and Securities Broking

Emerging Opportunities – Wealth Management, Structured Finance, Private Equity, Distressed Assets, Real Estate Finance, Leveraged Finance and Non-recourse Lending

Despite the fact that a considerable number of financial services are in operation, a few service institutions viz. banks, non banking financial companies, insurance firms, mutual fund organizations and share broking firms are considered for this research as most of the other services are generally confined to metros alone.

4.6 BANKING SERVICES

Bank deposits have been the foundation of the saving process in the Indian economy and banks have played an increasingly important role in stepping up the financial savings rate. Among the financial institutions commercial banks account for more than 64% of the total financial sector assets and enhance the growth of economy by pooling funds of small and scattered savers and allocate then for investment in an efficient manner in the loan market. Thus commercial banks act as the principal mobiliser of surplus funds and utilize these funds for capital formation and productive activity thereby promoting economic growth.

4.6.1 Meaning

A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly or through capital markets. A bank connects customers with capital deficits to customers with capital surpluses. This explanation shows that the major task of banks like any
other financial institutions is to act as intermediaries, channeling savings into investment and consumption: through them, the investment requirements of savers are reconciled with the credit needs of investors and consumers.

4.6.2 Classification

Just for the purpose of assessment of performance of banks, the Reserve Bank of India categorizes commercial banks as public sector banks, private sector banks and foreign banks. Public sector banks have either the Government of India or Reserve Bank of India as the majority shareholder. This segment comprises of State Bank of India (SBI) and its Subsidiaries which comprises of eight banks and a total of twenty other nationalized banks. Private banking in India has been practiced since the beginning of banking system in India. The private banks in India are the pioneers in information technology investment and introducing new concepts like Sunday banking, any time banking, flexi banking, etc. At present there are 23 other Scheduled Commercial banks operating in India.. In addition to domestic banks, 28 foreign banks are operating in India. These banks operate mainly in big trading centers and cater to the needs of big customers who can provide them with the entire spectrum of business. Foreign Banks in India always brought an explanation about the prompt services to customers. After the set up foreign banks in India, the banking sector in India also become competitive.

4.6.3 Importance

Commercial banks are the heart of our financial system. They hold the deposits of millions of persons, governments and business units. They make funds available through their lending and investing activities to borrowers - individuals, business firms, and governments. In doing so, they facilitate both the flow of goods and services from producers to consumers and the financial activities of governments. They provide a large portion of our medium of exchange and they are the media through which monetary policy is effected. Thus commercial banks play a very important role in the Indian economy.
4.6.4 Functions

Commercial banks have been referred to as 'department stores of finance' as they provide a wide variety of financial services. In addition to the acceptance of deposits, lending and investing, they provide a multitude of services, including transfer of funds, collection, foreign exchange, safe custody, safe deposit locker, merchant banking services, credit cards, gift cheques, etc. The conclusion that the commercial banking system of the nation is important to the functioning of its economy.

Commercial banks in India have set up subsidiaries to provide capital market related services such as counseling corporate clients who are in need of capital on capital structure, from of capital to be raised, the terms and conditions of issue underwriting of the issue, timing of the issue & preparation of prospectus and publicity for grooming the issue for the market. While providing these services they act as sponsor of issue, render expert advice on matters pertaining to investment decision, render the services as corporate counseling and advice on mergers acquisition and reorganization.

Banks are involved in fiduciary services too. Fiduciary Services are those services which banks perform on behalf of their client but do not show up on bank balance sheet such as employees’ pension fund, provident fund, profit sharing programmes managed by banks on the behalf of companies which are their client.

In India the off-balance sheet activities of commercial banks include forward exchange contracts, guarantees and acceptances and endorsement whereby the banks assume contingent liabilities such as a guarantee of payment of another party, for a fee. Standby letter of credit is an example whereby a bank agrees to pay specified amount on presentation of evidence of default or non-performance of the party whose obligation is guaranteed.
4.6.5 Directory of Banks

The Commercial banks in the study area which is confined to Tamilnadu state is given below along with the number of their branches in the year 2011. The banks are here classified into categories namely State Bank of India and its Associates, Other Nationalized Banks, Old Private Sector Banks, New Private Sector Banks and Foreign Banks as classified by the RBI. This classification has a lot of significance to the topic under study as the work culture and the characteristics of the human resources in these banks immensely vary. The list of all the banks in with details of the number of branches in Tamilnadu, the study area is given as ‘Appendix C.1’

Commercial banks are the oldest banking institutions in the organized sector. They constitute the predominant segment of the banking segment in India. They cater to the needs of trade, commerce, industries, agriculture, small business, transport and other activities with a wide network of branches throughout the country. As commercial banks command a major share in the total banking operation and are spread over the length and breadth of the country covering major cities, towns and villages alike this study focuses on the employees of the commercial banks.

4.7 NON-BANKING FINANCIAL COMPANIES (NBFCs)

Non-banking financial companies (NBFCs) are fast emerging as an important segment of the Indian financial system. Nowadays NBFCs are present in all competitive fields such as, vehicle financing, housing loans, leasing, hire purchase and personal loans financing etc. and are being recognized as complementary to the banking sector due to their customer-oriented services; simplified procedures; attractive rates of return on deposits; flexibility and timeliness in meeting the credit needs.

4.7.1 Meaning

According to the RBI guidelines the business of non-banking financial institution (NBFI) means a company engaged in the business of financial institution as contained in Section 45 I(a) of the RBI Act, 1934. A company can be treated as a non-
banking financial company (NBFC) if its financial assets are more than 50 per cent of its total assets (netted off by intangible assets) and income from financial assets is more than 50 per cent of the gross income.\(^2\)

A better understanding of what a NBFC means can be had from the following definition which says that a Non-Banking Financial Company (NBFC) is a company engaged in the business of loans and advances, acquisition of shares/stock/bonds/debentures/securities issued by Government or local authority or other securities of like marketable nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, sale/purchase/construction of immovable property. A non-banking institution which is a company and which has its principal business of receiving deposits under any scheme or arrangement or any other manner, or lending in any manner is also a non-banking financial company.

4.7.2 Functions

NBFCs are heterogeneous group of institutions performing financial intermediation in a variety of ways. Some of the major functions of NBFCs are accepting deposits, making loans and advances, leasing, hire purchase, etc. They raise funds from the public, directly or indirectly, and lend them to corporate and government projects. They advance loans to the various wholesale and retail traders, small-scale industries and self-employed persons.

4.7.3 Types

On regulatory front, NBFCs have been classified into 3 categories by the RBI. Asset Finance Company (AFC): Asset Finance Company is any company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power

\(^2\) http://www.rbi.org.in, on August, 2010
and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising there from is not less than 60% of its total assets and total income respectively.

Investment Company (IC): Investment companies can involve in acquisition of securities. It includes Primary Dealers who deal in underwriting and market making for government securities.

Loan Company (LC): The function of a loan company is concerned with providing finance by making loans or advances, or otherwise for any activity other than its own; excluding equipment leasing, hire purchasing and housing finance companies

4.7.4 Major NBFCs:

There are about thirteen thousand NBFCs operating in India under different categories. But most of them find their presence in limited geographical localities and their operations and financial capacities are limited. Some of the major players in the NBFC category who find their presence in the geographic area of this research are Housing Development Finance Corporation, LIC Housing Finance, Reliance Capital, Bajaj Auto Finance, First Leasing Company of India Limited, Hero Honda Finlease, ICICI Home Finance Company, JM Financial, Kotak Mahindra Investments, Kotak Mahindra Prime, Sundaram Finance, Tata Capital Limited, Religare Enterprises, India Infoline, Cholamandalam Finance, JM Financial, Shriram City, Indiabulls, M&M Financial.

4.8 INSURANCE SECTOR

Insurance Industry is closely linked to saving and investing. Therefore a well developed and evolved insurance sector is a boon for economic development as it provides long-term funds for infrastructure development and at the same time strengthens the risk-taking ability of the country. In India the growing consumer class, rising insurance awareness, increasing domestic savings and investments are some of the crucial factors positively driving the market penetration of the insurance products
among its consumer. And consequently India holds a considerably strong position among the emerging insurance economies globally.

4.8.1 What does Insurance Mean?

Insurance is a contract between two parties whereby one party agrees to undertake the risk of another in exchange for consideration known as premium and promises to pay a fixed sum of money to the other party on happening of an uncertain event (death) or after the expiry of a certain period in case of life insurance or to indemnify the other party on happening of an uncertain event in case of general insurance.

The transaction in an insurance contract involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate (indemnify) the insured in the case of a financial (personal) loss. The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insured will be financially compensated. Here an insurer is a company selling the insurance; an insured, or policyholder, is the person or entity buying the insurance policy. The insurance rate is a factor used to determine the amount to be charged for a certain amount of insurance coverage, called the premium.

4.8.2 Growth and Significance of Insurance Sector

Indian insurance sector is in top-gear growth. The number of life policies in force has increased nearly 12-fold over 2000-2010 and those pertaining to health insurance have increased nearly 25-fold. According to the Insurance Regulatory and Development Authority (IRDA) of India\(^3\), total first year premium collected in 2009-10 was US$ 24.64 billion, an increase of 25.46 per cent over US$ 19.64 billion collected in 2008-09. Further, according to IRDA, in April 2010, life insurance companies

\(^3\)http://www.irda.gov.in, on December 12, 2010
collected first year premium worth US$ 1.29 billion, as compared to US$ 810.9 million in the corresponding period of 2009.

Insurance has had a very positive impact on India’s economic development. The sector is gradually increasing its contribution to the country’s GDP. In addition, insurance is driving the infrastructure sector by increasing investments each year. Further, insurance has boosted the employment scenario in India by providing direct as well as indirect employment opportunities. Due to the healthy performance of the Indian economy, the share of life insurance premiums in the gross domestic savings (GDS) of the households sector has increased. The increased contribution of the insurance industry from the household GDS has been ploughed back into the economy, generating higher growth.

Life insurance, funded pension systems and non-life insurance have accumulated a significant amount of capital over time, which can be invested productively in the economy. The mutual dependence of insurance and capital markets plays an instrumental role in channeling funds and investment capabilities to augment the development potential of the Indian economy.

4.8.3 Functions

Insurance arrangement benefits the policy holder, the nation and the provider too. The functions of the insurance firms which are responsible for these mutual benefits can be brought under the following heads:

Provide protection: The primary function of insurance is to provide protection to the policyholders against future risk, accidents and uncertainties. The insurance firms perform this function by dividing the few losses among larger number of people who are insured against specific losses. The insurance firms assess the likely level of risk faced by the insured and fix the premium which is added to a fund out of which the person facing the risk is paid.
Prevention of losses: In addition to the corrective measures insurance firms are concerned with the prevention of losses too. Insurance warns individuals and businessmen to adopt appropriate measures, instructions and devices to prevent unfortunate losses which are the aftermath of risk. Insurance relieve the businessmen from large amount of safety investments by covering the risk with small premiums and in a way responsible for the development of large industries.

Saving and investment tool: By restricting the unnecessary expenses and collecting the surplus income Insurance firms act as a saving and investment tool. The funds thus mobilized are utilized in the development of government and corporate projects.

Promote International trade: Another major function of insurance firm is to earn foreign exchange and to make international trade risk free by promoting export insurance.

By and large, insurance contracts provide a mutually beneficial arrangement among policyholders and providers. Further it fuels the economic growth of the country.

4.8.4 Types of Insurance

Any risk that can be quantified can potentially be insured. But on a broader scale insurance is classified into two sub segments - life insurance and non-life insurance.

Life Insurance: Life insurance provides a monetary benefit to a decedent's family or other designated beneficiary, and may specifically provide for income to an insured person's family, burial, funeral and other final expenses. Life insurance policies often allow the option of having the proceeds paid to the beneficiary either in a lump sum cash payment or an annuity. Certain life insurance contracts accumulate cash values, which may be taken by the insured if the policy is surrendered or which may be borrowed against. Some policies, such as annuities and endowment policies, are financial instruments to accumulate or liquidate wealth when it is needed.
Non-life Insurance: Otherwise called as general insurance and offers protection against contingencies. In India General Insurance covers almost everything related to property, vehicle, cash, household goods, health and also one's liability towards others. Some important and common forms of non-life insurance popular in India are home insurance, vehicle insurance, health insurance, crop insurance, property insurance etc. but the list of items that can be insured is non-exhaustive. Business insurance is another important form of insurance worth mentioning. Blanket insurance is another form where a single policy covers a set of contingencies.

**4.8.5 Directory of Insurance Services**

Today there are 24 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 23 life insurance companies operating in the country. The existence of all the companies listed in ‘Appendix C.2’ exists in the area under study but in different intensities. LIC is the largest player in the life insurance segment contributing to 74.39% to the total life insurance premium collected.

Insurance is a guard against financial loss arising on the happening of an unforeseen event. But the Indian populace like majority of the people in all other developing countries remains unaware of the benefits of insurance. In 2008, the Indian insurance sector constituted approximately 4% of the country’s GDP, as compared to the life insurance penetration rate of around 8%-10% of the GDP in other Asian countries. And it is for this reason the insurance sector in India is still to grow.

**4.9 MUTUAL FUNDS**

Mutual funds are the fastest growing institution in the household saving sector. It serves as a critical institutional link among various financial segments like savings, capital market and the corporate sector. As common investors rarely have the time and expertise for the in-depth analysis of scripts and companies they seldom invest in stock market and mutual funds come to the rescue of such investors. Thereby mutual funds play a very active role in promoting a healthy capital market of a country.
4.9.1 Meaning

Association of Mutual Fund Investors (AMFI) describe mutual Fund as “a trust that pools the savings of a number of investors who share a common financial goal”\(^4\). The Securities and Exchange Board of India (SEBI) regulations defines a mutual fund as “a fund established in the form of a trust by a sponsor, to raise money by the trustee through the sale of units to the public, under one or more schemes, for investing in securities in accordance with these regulations”\(^5\)

From the above definitions it could be understood that a mutual fund is a financial intermediary that allows a group of investors having a common financial goal to transfer their surplus funds to a professionally qualified organization to invest in a portfolio of securities. Each fund is divided into a small fraction called ‘units’ of equal value. Each investor owns appropriate number of units in proportion to the amount shared by them that provides even a small investor with an opportunity for high degree of diversification. The income earned through these investments and the capital appreciation realised are shared by the investors in proportion to the units owned by them.

4.9.2 Role of Mutual Funds

A developed financial market is critical to overall economic development and mutual funds play an active role in promoting a healthy capital market. Majority of the investable funds of mutual funds are employed in equities and debt instruments and mutual funds are more actively involved in direct financing to the corporate sector too. Thus mutual funds have enabled the corporate sector to raise capital at reduced cost and they are also responsible for increasing liquidity in money market.

In addition to the macro level significance mutual funds have enabled small and medium level investors from rural and semi-urban areas to reap the benefits of stock market investments. Over and above all, by professional management mutual funds\(^4\) http://www.amfiindia.com, on December 12,2010
\(^5\) http://www.sebi.gov.in, on December 12,2010
provide the investors the benefits of diversification, reduced costs, flexibility, liquidity, safety and better returns.

4.9.3 Mutual Funds - Indian Scenario

The origin of mutual fund industry in India is with the introduction of the concept of mutual fund by UTI in the year 1963. Though the growth was slow, but it accelerated from the year 1987 when non-UTI players entered the industry. In the past decade, Indian mutual fund industry had seen a dramatic improvement, both quality wise and quantity wise. At present the Rs 6.42 trillion Indian mutual funds industry has 44 asset management companies (AMCs), according to AMFI. The industry is poised to grow leaps and bounds in the coming years due to lower penetration coupled with soaring assets under management (AUM). Data from AMFI has also revealed that between March and August 2011, the mutual fund industry had introduced 377 new schemes and raised Rs 42,015 crore from investors. For the quarter July-September 2011, average AUM for the industry was worth Rs 712,742 crore.

Despite the alluring growth statistic stated above the total fund deposited in the mutual fund industry constitutes less than 11% of the total deposits held by the Indian banking industry and less than 10% of Indian households have invested in mutual funds. (AMFI website). The main reason for the poor growth of mutual fund industry in India is that investors are holding back from putting their money into mutual funds due to their perceived high risk and a lack of information on how mutual funds work.

4.9.4 Directory of Mutual Funds

The selling and marketing of mutual fund is not only done directly by the asset management companies alone but by various intermediaries such as individual agents, distributors, companies, national/regional brokers, banks, post offices, etc. It is therefore uncommon to find the mutual fund firms in every city and town but its customers are spread over the length and breadth of the country. The list of mutual funds registered with SEBI as on October 2011 is given in the Appendix C.3.
In spite of the overall macroeconomic uncertainties, particularly the fluctuating stock markets the Indian mutual fund industry has emerged as a significant financial intermediary playing the dual role of meeting the investment needs of the common public as well as the development of national economy through mobilization of funds.

4.10 STOCK BROKING

The stock broking services in India are going through a phase of significant penetration and increased reach. Large brokerage houses are growing and scaling up through geographical expansion and this process is expected to continue in the future too as the industry is witnessing intensifying competition among the existing players and new entrants. The increased global attention, the continued foreign investments, the rising trade volumes, and the robust stock market performance in spite of the global slowdown are fuelling retail investor’s interest in the equity products. The potential of broking houses are further enhanced by the exploitation of latent demands for financial products in semi urban and rural areas as well.

4.10.1 Significance of Capital Market

There is significant positive correlation between capital accumulation and economic growth and therefore mobilization of funds or capital occupies an important place in the growth of an economy. But conversion of funds from investing public into capital for industries can only be possible when the capital markets provide opportunity for conversion of the scattered savings of public into profitable investments with promises of increased profitability and reduced risk. Capital market is a market for all financial instruments, both short term and long term and also commercial, industrial and government paper. It is a market where borrowing and lending of long term funds takes place and it deals in both debt and equity. Corporate both in private as well as in the public sector raise crores of rupees in these markets. The governments both central and state also raise money through capital market through issue of
government securities. The capital markets carry out two important functions namely raising of new capital and trading in securities already issued by the companies.

4.10.2 Stock broking Firms – Meaning and Functions

In the simplest sense, the process of investing in the capital market especially share market, through a broker is known as stock broking. Brokers are those people who deal in shares and whose business includes the procuring of subscribers for shares. They are basically intermediaries in the secondary market and are middlemen between the investors and stock exchanges. Unlike other brokers, stock broker is frequently entrusted with the possession of securities and may even take and transfer them without the name of the principal appearing in the transaction. He often pays the price in advance and then receives payment from the client. The brokers are responsible for suggesting investment ideas and strategies suitable for individual investors based on their investment objective and tenure of investment. The selected financial instruments and their respective companies, the schemes, the risk taking ability, the sum available for investment, etc. are considered while forming investment choices. After the amount is invested, the broker tracks and monitors the investments, changes or reinvests depending on the performance and generates reports for them. This entire process is known as stock broking and stock broking firms are those entities that carry out the entire functions of the brokers mentioned above.

4.10.3 Major Stock Broking Firms

Out of the numerous stock broking firms operating in India, some of the major players in the area under study are listed in the alphabetic order. Anand Rathi Share and Stock Brokers Ltd., Angel Broking, Apollo Sindoori Capital Investments Ltd., Aryan Share and Stock Brokers Ltd., ICICI Direct, Geogit Securities, India Bulls, India Infoline, Karvy Stock Broking Ltd., Kotak Securities Pvt. Ltd., Motilal Oswal Securities, Reliance Money Religare, and Sharekhan Ltd are some among the many broking firms which are in operation. Such firms have their branches in major towns.
and cities but their network is spread all over, covering even the suburban regions by numerous sub brokers.

The stock brokerage firms are not responsible for helping the investors put their money in the stock market alone but they provide information services to their clients too. But advancements in information and communication technology these days make information freely accessible to even common investors through television, magazines and internet round the clock. Moreover accessibility to faster internet connections have made share trading possible by customers without the support of professional stock broking firms even in small towns and suburban sections of India. In spite of these recent developments the responsibility of mobilization of capital for the development of industries and the nation rests intensely on the stock broking firms so far.

4.11 HUMAN RESOURCES IN FINANCIAL SERVICES INDUSTRY

Human resources is a term used to describe the individuals who make up the workforce of an organization. They are the firms’ most important assets who play an important role in developing a sustainable competitive advantage. The objective of any organization is to maximize return on investment and this is true in terms of the organization's human capital too. Human resource management function seeks to achieve this objective by implement an organization's human resource requirements effectively, taking into account the state and local labor laws and regulations and ethical business practices in a manner that maximizes employee motivation, commitment and productivity. This applies to the financial services industries too.

As far as the use of information and communication technology is concerned the type of ICT required by worker in financial services industry and the productivity impact of that ICT is likely to vary considerably according to job characteristics. Workers can be segmented into six different types according to their communication needs. They are mobile workers, roaming professionals, decision makers, trade workers and service providers, informational processors and office knowledge workers.
The following table gives the details of people working in the financial services industry in Tamilnadu, the location for the study.

### Table 4.1

People Working in Financial Services Industries in TamilNadu

<table>
<thead>
<tr>
<th></th>
<th>Public sector</th>
<th>Private sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>94764</td>
<td>10234</td>
</tr>
<tr>
<td>Female</td>
<td>20009</td>
<td>2709</td>
</tr>
<tr>
<td>Total</td>
<td>114773</td>
<td>12943</td>
</tr>
</tbody>
</table>


#### 4.11.1 Human Resources in Banking Industry

Traditionally banking industry used to employ highly skilled people for most of its functions on a permanent basis. However, over the last few years there has been an increasing trend to outsource many of the banking activities which has resulted in creation of employment opportunities for people with specialised educational qualification in the form of customer care support and tele marketing, software and hardware engineering and many more. These people are expected to possess good communication skills, high level of perseverance, high energy level, emotional intelligence, and aptitude for repetitive work, integrity and fulfilling customer’s expectations. Their propensity to use Information and communication technology devices and the impact of ICT on them is expected to be entirely different from that of its impact on the previous generation of workers.

Another important aspect of banking industry is that metro and urban regions accounts for around 80% of total outstanding bank credit and 75% of total bank deposits. In line with the concentration of banking activity, 60% of the manpower employment is also concentrated in the metro and urban areas (source RBI website)

The typical function of a bank can be categorized in three broad functions
Sales and Marketing: About 25 to 30% out of the total people employed in a banking industry are involved in sales and marketing which comprises of new business generation, relationship management, Marketing and promotion, proposal preparation and presentation.

Operations: This is the major function of the bank and about 55 to 60% people are involved in operations. This function comprises of transaction processing, documentation, compliance, branch operations, customer service and risk management.

Support functions: Only 10 to 15% people make up this support functions such as human resource, finance, legal, information and communication technology, audit and other administration functions.

This trend is fast changing in the new private sector banks and foreign banks where more effort is being put on marketing and customer relations and by improving the services and introducing innovative products.

4.11.2 Human Resources in the NBFCs

The functions of NBFCs are almost similar to that of the banking activities except the differences mentioned in detail in the previous section.

The functions of people employed in the non-banking financial companies can be classified into the following types:

Product Development: Upto 5% of the manpower in NBFCs are involved in the product development function. Product design and development, cost analysis, business analysis, technical design and price planning or interest rate fixation are the important activities coming under this function.

Credit Appraisal and Evaluation: This is the process by which NBFCs appraise the technical feasibility, economic viability and bankability including creditworthiness of the prospective borrower. Field investigation, document testing and verification, report submission and certification are the major activities coming under credit appraisal and
evaluation department. About 10 to 15% of the employees of NBFCs are involved in these activities.

**Collections and Recovery:** This function of the NBFC is concerned with the process of regular collection of principal and the interest for the debts serviced by the organizations and recovery of outstanding debts. It involves collection handling, control over the branch delinquency, and legal affairs.

About 10 to 15% people are engaged in collection and recovery services in NBFCs.

**Sales and Customer Support:** Searching for prospective customers and assisting them to make cost effective and proper use of debts serviced. It involves advertising, promotion, and other allied activities. Almost 40 to 50% of the employees of NBFCs are involved in these activities.

**Other Support Functions:** HR administration, legal, audit and other supportive functions comes under this and 15 to 20% of employees are attached to this function.

Not all but most of the NBFCs outsource their sales and collection activities.

**4.11.3 Human Resources in Insurance Services**

The major employment in the insurance industry is driven by intermediaries, either in the form of agents or brokers, who sell the insurance policies. An estimated 10% of the people involved in the sector are employed as on-rolls employee in the insurance field.

The major activities or responsibilities of people employed in insurance organization are

**Product Development:** Approximately one percent of the employees in the insurance industry are employed in product development. This function consists of product design, business analysis and technical design, policy pricing, policy wording and policy related forms designing.

**Marketing and Sales:** About 60 to 70% people employed in the insurance industry are involved in marketing of insurance products. Marketing involves direct sales,
promotion, outbound and inbound telesales, advertising and support activities such as agent compensation, performance tracking of agents and sales force training.

**Administration:** 10 to 15% employees in the insurance sector are employed in administrative functions. Premium accounting, policy owner services, HR administration, etc. comes under this.

**Asset Management:** Another very small component of the workforce comprising approximately one percent of the total workforce is involved in this function. Investment functions, portfolio analysis, reinsurance, and period evaluations are the major asset management functions.

**Claims Management:** Another 10 to 15% of the people employed in insurance sector are involved in the very significant activity of claims management. This division takes care of registering claims, indexing, data entry, editing, referencing and verification, invoice processing, payments and overpayments management, claims evaluation and litigation.

On the whole about 50-60% of the people employed in the insurance industry are from the highly skilled class. Another important aspect of insurance firm is that it has approximately 70% of the offices in semi-urban and rural areas.

**4.11.4 Human Resources in Mutual Funds**

Mutual fund is another industry where majority of the activities especially distribution and services are carried out by intermediaries. Distribution of human resources in the permanent rolls of mutual fund industry is given below

**Investment and Research:** 5 to 10% of the mutual fund employees are involved in the investment and research function. They have overall responsibility for directing the fund’s investments and handling its business affairs. They further determine which securities to buy and sell in the funds’ portfolio, consistent with the funds’ investment objectives and policies.
Transfer Agency and Administration: The many back office functions of the fund such as book keeping, data processing, clerical and fund accounting services are carried out by the administrative staff and transfer agents maintain the records of shareholders accounts, calculate and distribute dividends and capital gains and other related functions. Nearly 20 to 30% of the human resources of mutual fund operations fall under this category.

Sales and Marketing: The remaining 50 to 60% of mutual fund employees are engaged with advertising and sales promotion which falls under marketing and sales of mutual fund products.

4.11.5 HR Services in Stock Broking Firms

The job of a stock broking firms is finding and retaining a client base of investors with substantial liquid assets and advising them on when to buy and sell stocks and keeps them appraised of market trends and projections. The following major departments are responsible to carry out these functions.

Investment and Research: It is the department responsible for the core decisions in a stock broking firm. It determines when and what to buy and when and what to sell. A very small portion of human resources ranging from 5 -10% serve this department.

Risk Management, Funds Management and Depositary participant: This department is responsible for carrying out the day to day functions of the firm such as transfer of shares and stocks, dematerialization, transfer and other related operations. Almost 10 -20% of the employees serve this section of the stock broking firm.

Marketing and Business Development: Both these functions involve dealing with clients. The functions include producing and reviewing documents, identifying information, locating etc. Almost 40 to 50 percentage employees are involved in these functions.
Administration and Support functions: Management of human resources, legal, auditing and other supportive functions fall under this category. On an average this department employs 10-20% of human resources in the stock broking industry.

4.12 CONCLUSION

Financial services bridges the gap between lack of knowledge of investors and financial instruments and markets and helps in raising funds from individuals, investors, institutions, and corporate organizations and efficient distribution of funds. An innovative, competitive and thriving financial services industry in any country plays a vital role in its smooth functioning and development. The volume and growth of the capital in the country depends greatly upon the efficiency and intensity of the operations and activities of its financial services.

Human resource is the greatest asset that any organization possesses and it must ensure that this potential is harnessed to the maximum to contribute positively towards the growth of any organization. As the financial services industry which serves as the life and blood in the development of any nation it is imperative to ensure that the best human resources are utilized for the achievement of their organizational objectives. And a developing economy like India needs an excellently functioning assortment of financial services firms to sustain its growth and development uninterrupted.